

Message Text

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15

ACTION EB-07

INFO OCT-01 ARA-10 EUR-12 NEA-09 ISO-00 FEA-01 ERDA-07

AID-05 CEA-01 CIAE-00 CIEP-02 COME-00 DODE-00 FPC-01

H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

USIA-15 SAM-01 OES-05 SP-02 SS-15 STR-04 TRSE-00

FRB-01 PA-02 PRS-01 /127 W

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R 121300Z MAY 75

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 4280

INFO AMEMBASSY ABU DHABI

AMEMBASSY CARACAS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USEC BRUSSELS 835

USOECD PARIS

UNCLAS BEIRUT 6007

E.O. 11652: N/A

TAGS: ENRG, OPEC, LY

SUBJECT: LIBYAN STANDSTILL ON PARTICIPATION

REF: TRIPOLI 507

SUMMARY: LIBYA HAS JOINED LIST OF OIL PRODUCERS WHO NOT RPT NOT
AT PRESENT INTERESTED IN INCREASING GOVERNMENT PARTICIPATION
BEYOND CURRENT LEVELS, ACCORDING MEES INTERVIEW WITH OILMIN MABRUK.
HE CITED MARKETING AND INVESTMENT AS CHIEF OBSTACLES. ON OTHER
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SUBJECTS, OILMIN SAID COMPANIES' PROFIT MARGIN 20-30 CENTS/BBL;

OXY NO LONGER SELLING BELOW COST; NO NEW REFINING PROJECTS INDICATED;
LIBYA FAVORS CONTINUED DIALOGUE, PRODUCTION PROGRAMMING AND WORKABLE
DIFFERENTIAL SYSTEM. END SUMMARY.

1. MAY 9 MIDDLE EAST ECONOMIC SURVEY (MEES) CARRIES INTERVIEW BY
NEWS EDITOR IAN SEYMOUR WITH LIBYAN OILMIN MABRUK WHO STATED CLEARLY
THAT LARG NOT RPT NOT INTERESTED AT PRESENT IN MORE THAN ITS CURRENT
51 PER CENT PARTICIPATION IN OCCIDENTAL, EXXON, MOBIL, CONTINENTAL/
MARATHON/AMERADA AND ENI/AGIP. MINISTER CITED MARKETING AND
INVESTMENT AS MAIN OBSTACLES:

A. "ACTUALLY THE IDEA OF A FULL TAKEOVER BY THE GOVERNMENT WAS
SOMETHING THEY (OCCIDENTAL) THEMSELVES SUGGESTED. FOR OUR PART, WE
ARE NOT NEGOTIATING WITH ANY COMPANY FOR AN INCREASE IN OUR PARTI-
CIPATION SHARE. FOR THE TIME BEING WE ARE QUITE SATISFIED WITH THE
EXISTING PARTICIPATION ARRANGEMENTS AS THEY STAND. WE HAVE NO
INTENTION OF SEEKING 100 PERCENT JUST FOR THE SAKE OF IT - JUST FOR
THE SAKE OF CONTROL, SINCE WE ALREADY CONTROL 75 PERCENT OF THE
COUNTRY'S OIL PRODUCTION AND THAT IS QUITE ENOUGH TO BE GOING ON
WITH. OUR STAND ON THIS MATTER IS DICTATED BY ANUMBER OF COMPELLING
REASONS.

B. "FIRSTLY - AND MOST IMPORTANT - IS THE PROBLEM OF MARKETING.
IT IS A VERY DIFFICULT BUSINESS TO BREAK INTO THE MARKET AND START
SELLING, SAY, 1.5 MILLION BARRELS A DAY DIRECTLY. THIS IS REALLY NO
JOKE. THE COMPANIES HAVE THE BULK OF THE MARKETING FACILITIES DOWN-
STREAM, AND APART FROM GOVERNMENT-TO-GOVERNMENT DEALS THE PROSPECTS
FOR DIRECT SALES ARE LIMITED. OF COURSE, WE ARE MAKING DIRECT SALES,
BUT THESE AMOUNT TO A FAIRLY SMALL PERCENTAGE OF TOTAL EXPORTS.

C. "SECONDLY, THERE IS THE QUESTION OF EXPLORATION INVESTMENT.
COMPANIES LIKE EXXON, MOBIL AND OCCIDENTAL ARE COMMITTED TO VERY
EXTENSIVE EXPLORATION PROGRAMS, AND THEY ARE WORKING HARD AND
CARRYING OUT ALL THEIR OBLIGATIONS IN THIS RESPECT. WE ARE ACCORD-
ING A HIGH PRIORITY TO EXPLORATION EFFORTS SINCE THE DISCOVERY OF
NEW OIL RESERVES IS IMPORTANT FOR OUR FUTURE.

D. "THIRDLY, THERE IS ALSO THE QUESTION OF INVESTMENT FOR THE
MAINTENANCE OF PRODUCTION FROM EXISTING FIELDS. THIS IS GETTING
MORE COSTLY AS THE NEED FOR OILFIELD MAINTENANCE WORK INCREASES.
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E. "IN VIEW OF ALL THESE CONSIDERATIONS - AND ABOVE ALL THE
PROBLEM OF MARKETING, AS I HAVE SAID - I PERSONALLY BELIEVE THAT IT
IS NOT IN LIBYA'S INTEREST TO EMBARK ON A 100 PERCENT TAKE OVER AT
THE MOMENT. THE COMPANIES ARE HAPPY WITH THE PRESENT ARRANGEMENTS
AND WE ARE TOO, SO THERE IS NO NEED FOR ANY CHANGE AT THE MOMENT."

2. ON OTHER ITEMS CURRENT INTEREST, MABRUK SAID:

A. PRODUCTION/REVENUES: CURRENTLY ABOUT 1 MILLION BPD (ANNUAL GOVERNMENT REVENUE RATE OF \$3.8 BILLION AT \$10.50/BBL), "REASONABLY SATISFACTORY" FOR LIBYA'S CURRENT NEEDS ALTHOUGH SOME TRIMMING OF EXPENDITURES MIGHT BE REQUIRED;

B. COSTS/PROFITS: LIBYAN PRODUCTION COST NOW AVERAGES 72 CENTS/BBL, AVERAGE COST TO COMPANIES IS \$11-11.10 FOR MOST EXCEPT OCCIDENTAL, WHICH IS \$11.23. ESTIMATED PROFIT MARGIN IS 20-30 CENTS. TAX REFERENCE PRICE NOW \$15, DOWN FROM \$15.768;

C. OCCIDENTAL: HE CONFIRMED REPORTS THAT OXY HAD BEEN SELLING AT \$10.70, OR 50 CENTS BELOW ITS COST, BUT SAID LARG HAD STOPPED THIS AS IT OPPOSED TO LOWERING PRICES TO WIN EXTRA SALES. HE ADDED THAT LARG-OXY RELATIONS GOOD, "THEY ARE ENTITLED TO A RETURN AND WE ARE TRYING TO HELP THEM".

D. EXPORT REFINING: "IF WE ARE HAVING DIFFICULTY MARKETING CRUDE OIL, JUST IMAGINE PROBLEM OF MARKETING REFINED PRODUCTS." ONLY FIRM EXPORT REFINING PROJECTS ARE THE TWO ALREADY UNDERWAY, ZAVIA EXPANSION TO 120,000 BPD AND NEW TOBRUK REFINERY OF 220,00 BPD, HE INDICATED.

E. CONSUMER/PRODUCER DIALOGUE: PARIS PREPCOM "NOT HANDLED PROPERLY". LIBYA FAVORS DIALOGUE BUT IF NO RESULTS, OPEC MUST TAKE COLLECTIVE ACTION, PARTICULARLY REGARDING PURCHASING POWER. "THIS IS VITAL MATTER AND WE CANNOT AFFORD TO WAIT TOO LONG";

F. PRODUCTION PROGRAMMING: ENTHUSIASTICALLY SUPPORTED BY LIBYA AS ONLY EFFECTIVE MEANS OF COMBATING PRICE WEAKNESS. TECHNICALLY SIMPLE, "WHAT IS NEEDED IS THE POLITICAL WILL".

G. PRICE DIFFERENTIALS: LIBYA WANTS OPEC ESTABLISH REALISTIC AND FLEXIBLE QUALITY AND FREIGHT DIFFERENTIAL SYSTEM;
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NEED AND WOULD WELCOME PERMANENT MACHINERY OF EXPERTS EMPOWERED BY OPEC CONFERENCE TO DEAL WITH DIFFERENTIALS AND FLUCTUATING PREMIUMS.
GODLEY

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